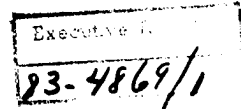




OFFICE OF THE SECRETARY OF THE TREASURY  
WASHINGTON, D.C. 20220



October 13, 1983

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MEMORANDUM FOR OVP  
STATE  
DEFENSE  
AGRICULTURE  
COMMERCE  
OMB  
CIA  
USTR  
OPD  
NSC  
CEA  
OCA

- MR. PHILIP HUGHES  
- MR. CHARLES HILL  
- COL. JOHN STANFORD  
- MR. RAYMOND LETT  
- MRS. HELEN ROBBINS  
- MR. ALTON G. KEEL  
[Redacted]  
- MR. DENNIS WHITFIELD  
- MR. LES DENEND  
- MR. ROBERT KIMMIT  
- MR. WILLIAM A. NISKANEN  
- MR. THOMAS GIBSON

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Subject Next Meeting of Interagency Group on International  
Economic Policy (IG-IEP) to Discuss Japanese  
Capital Market Liberalization

Assistant Secretary Leland will chair a second meeting of the IG-IEP on Monday, October 17, to examine possibilities for liberalization of the Japanese capital market. Any written comments on the document distributed at the first meeting are requested by c.o.b., Friday, October 14. That document, your comments, and the attached supplementary pages to the document and executive summary of Lee Morgan's recent study of the yen/dollar exchange rate will be discussed on Monday.

The meeting will be held at 10:00 a.m., in Room 4426, Main Treasury Building. Attendance will be principal, plus one.

*David E. Pickford*  
David E. Pickford  
Executive Secretary

Attachments

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8. Press GOJ to take actions that would result in at least one U.S. securities firm with membership on the Tokyo Stock Exchange at a reasonable price.

CURRENT POLICY: Foreign firms are permitted to join the Tokyo Stock Exchange, but the lack of available seats and high cost (up to \$5 million) make membership virtually impossible and not cost effective in light of the relatively small amount of business which U.S. firms currently handle.

YEN EFFECT: Could be an important step in promoting greater foreign capital investment in Japan and thus could help strengthen the yen over the long term.

EVALUATION: GOJ would likely say this issue not under its authority, but perhaps could be pushed to bring pressure to bear on stock exchange. This move could substantially increase foreign investor confidence in Japanese securities, due to knowledge that U.S. standards of professionalism in executing orders are being adhered to.

9. Urge GOJ to take steps to increase the liquidity and diversify the maturity structure of official debt instruments, including increased reliance on T-bills and development of an active secondary market in all government securities. Allow foreign individuals and banks to participate in all aspects of trading.

CURRENT POLICY: GOJ debt concentrated in ten-year instruments and no real secondary market exists; resale by initial buyer permitted only after delay of 100 days. T-bills issued only as temporary financing means and must be redeemed within fiscal year of issue. Only government debt syndicate members may trade in government securities. (Citibank has applied, and should be accepted, to the syndicate; it will be the first foreign bank to do so.) Foreigners currently permitted to purchase government securities upon resale by syndicate members.

YEN EFFECT: By increasing the liquidity of yen-denominated securities, should have a strengthening effect on the yen over the long term.

EVALUATION: GOJ not likely to accept nonsyndicate trading in government securities because would destroy current system of government debt management. GOJ apparently considering diversifying maturity structure of debt beginning in FY 1985 and may be willing to consider increased reliance on T-bills. Likely to accept gradual growth of secondary market, even though it would tend to erode GOJ control over long-term interest rates.

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10. Urge the GOJ to seek amendment to law to permit GOJ issuance of debt instruments overseas, both in yen and in foreign currencies.

CURRENT POLICY: GOJ prohibited by law from issuing debt overseas.

YEN EFFECT: Issuance of foreign currency denominated instruments would increase capital inflow to Japan and thus tend to strengthen the yen; issuance of yen denominated bonds overseas could tend to strengthen the yen if there is an unsatisfied demand for yen instruments; it also would increase internationalization of the yen.

EVALUATION: GOJ reportedly is seeking such an amendment to the law.

11. Make a statement indicating the foreign currency denominated securities may be freely issued in the Japanese market.

CURRENT POLICY: Foreign currency denominated bonds have been issued in the Japanese market in the past, although none have been issued in the past three or four years.

YEN EFFECT: Could have minimal strengthening effect on yen as securities redeemed, with interest payments representing net inflow of foreign capital.

EVALUATION: GOJ might be willing to make such a statement.

12. Allow CDs to be traded without permission of issuing bank.

CURRENT POLICY: CDs cannot be traded without such permission.

YEN EFFECT: Could strengthen the yen due to increased liquidity of Japanese denominated securities.

EVALUATION: GOJ may be willing to consider. Would be desirable from point of view of U.S. banks.

13. Accelerate interest rate liberalization on all instruments, including bank deposits and deposits with postal saving system.

CURRENT POLICY: Ceilings exist for savings/postal deposit rates and for many long-term lending rates.

YEN EFFECT: Indeterminate. Except for savings and postal deposits, shortterm interest rates freely determined. Administered long-term lending rates now higher than many Japanese borrowers will accept; two city banks recently introduced new long-term lending rates at level lower than administered level.

EVALUATION: GOJ probably willing to see slow move toward greater interest rate liberalization; market forces already pushing in that direction.

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